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STATE OF MONTANA

BOARD OF PUBLIC EDUCATION

Report on Examination of Financial Statements  
Two Fiscal Years Ended June 30, 1980

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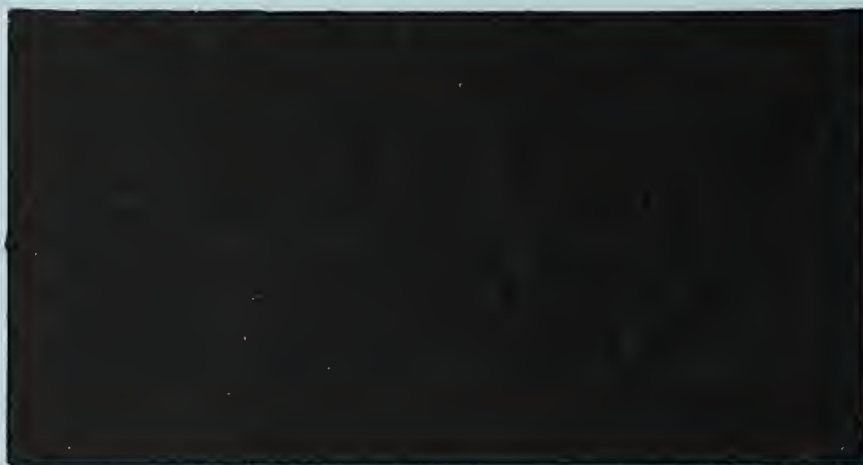
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STATE OF MONTANA  
BOARD OF PUBLIC EDUCATION

Report on Examination of Financial Statements  
Two Fiscal Years Ended June 30, 1980



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EX OFFICIO, APPOINTIVE, AND ADMINISTRATIVE OFFICIALS

BOARD OF PUBLIC EDUCATION

EX OFFICIO MEMBERS

|                    |                                      |
|--------------------|--------------------------------------|
| Ted Schwinden      | Governor of the State of Montana     |
| Ed Argenbright     | Superintendent of Public Instruction |
| John A. Richardson | Commissioner of Higher Education     |

APPOINTED MEMBERS

|                            | <u>Term Expires</u> |
|----------------------------|---------------------|
| Marjorie King, Chairperson | 1981                |
| Thomas A. Thompson         | 1987                |
| George A. Johnson          | 1986                |
| Harriett C. Meloy          | 1985                |
| Allen D. Gunderson         | 1984                |
| Cathryn Jean Robacker      | 1983                |
| Neil J. Lynch              | 1982                |

ADMINISTRATIVE OFFICIALS

|                   |   |
|-------------------|---|
| Richard L. Reese  | Assistant to the Board                  |
| Marilyn K. Miller | Assistant to the Board                  |
| Ira Bryant        | Director, Fire Services Training School |

## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Board of Public Education is included in the back of this report.

|   | <u>Page</u> |
|---|-------------|
| 1. Record an adjustment for transactions affecting cash balances after fiscal year-end.                                       | 3           |
| <u>Agency Reply:</u> Concur. See page 15  |             |
| 2. Recover, to the fullest extent possible, indirect costs associated with the administration of federally assisted programs. | 4           |
| <u>Agency Reply:</u> Concur. See page 15.   |             |



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## COMMENTS

### INTRODUCTION

We performed a financial/compliance audit of the Board of Public Education for the two fiscal years ended June 30, 1980. The objectives of the audit were to: (1) determine if the board's financial statements present fairly the financial position on June 30, 1980 and the results of operations for the two fiscal years then ended, (2) determine if the board complied with significant applicable laws and regulations, and (3) make recommendations for improvement in management and internal controls.

### BACKGROUND

The Montana Board of Public Education was created by Article X, Section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. Members are appointed for seven-year overlapping terms. A student, selected annually by the Montana Association of Student Councils, also sits as a non-voting member of the board.

The Board of Public Education is charged with the authority and responsibility for exercising general supervision over the public school system and such other public educational institutions as may be assigned by law. The Board of Public Education is also assigned numerous statutory responsibilities, including the establishment of policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards and regulations, and the designation of school days and hours.

The board is also assigned by statute the general supervision of the Montana School for the Deaf and Blind and the Montana Fire Services Training School (FSTS). The financial statements presented in this report represent the financial position of the Board of Public Education and the Montana Fire Services Training School. The School for the Deaf and Blind was audited by our office for the two fiscal years ended June 30, 1980 and the report was issued under separate cover.

The FSTS is an educational institution established to provide fire safety training and firefighting instruction to paid, volunteer, and private industrial firefighters and to provide public educational programs to promote fire prevention. The FSTS employs a director, three instructors, and a full-time secretary.

The board employs a full-time assistant and one full-time secretary. During our audit period, the assistant to the board position was held by two persons, each receiving a one-half full-time employee status. The assistant is designated by statute as secretary to the board and the person responsible for liaison between the board and the Superintendent of Public Instruction.

We thank the board and FSTS staffs for their cooperation and assistance during our audit.

#### CASH RESTATEMENT

Transactions processed during the fiscal year-end adjustment period should be reviewed and cash appropriately restored for financial statement presentation. During the fiscal year-end adjustment period, July 1 to July 21, state agencies continued to pay fiscal year 1979-80 claims, reducing their cash balance. To reflect

the actual June 30 cash balance for financial statement purposes, the Department of Administration restores cash and establishes an accrual at June 30 for amounts paid during the adjustment period. The amounts restored by the department include only those recorded on transfer warrant claims and the payroll no-warrant transfers processed during the fiscal year-end adjustment period. All other transactions affecting cash after June 30 should be restated on a journal voucher prepared by the agency.

Because the board did not restate these other transactions, assets and liabilities shown on the accounting records at June 30, 1980 are each understated by \$611 in the General Fund. The financial statements have been adjusted for fair presentation of the account balances.

#### RECOMMENDATION #1

WE RECOMMEND THAT THE BOARD OF PUBLIC EDUCATION RECORD AN ADJUSTMENT FOR TRANSACTIONS AFFECTING CASH BALANCES AFTER FISCAL YEAR-END.

#### INDIRECT COSTS

Compliance with section 17-3-111, MCA, requires the board to recover, to the fullest extent possible, indirect costs associated with federally assisted programs. These costs include both the agency's internal indirect costs and the cost of support services received from other state agencies.

The FSTS did not attempt to recover any of the indirect costs of administering a \$5,000 federal grant received from the U.S. Fire Administration. This resulted in General Fund money financing the federal program at a level greater than federal funds would support.

#### RECOMMENDATION #2

WE RECOMMEND THAT THE BOARD RECOVER, TO THE FULLEST EXTENT POSSIBLE, INDIRECT COSTS ASSOCIATED WITH THE ADMINISTRATION OF FEDERALLY ASSISTED PROGRAMS.

#### INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the board's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our examination would not necessarily disclose all weaknesses in the system of internal accounting control because it was based upon selective tests of accounting records and related data. Our tests did not disclose any material weaknesses in internal control.

#### FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with audit requirements in the U.S. Office of Management and Budget, Circular A-102, Attachment P. We found the board in substantial compliance with the terms of agreements and those provisions of federal law and regulations that could have a material effect on the financial statements. Our tests for the allowability of charges to federal grants were performed on a sample of expenditures. None of the items tested were questioned costs. Nothing came to our attention indicating possible non-compliance in items not tested.

#### PRIOR REPORT RECOMMENDATIONS

The fiscal year 1977-78 audit of the Board of Public Education was conducted by a public accounting firm under contract with our office. Their report contained two recommendations. The board concurred with and has implemented both recommendations.



AUDITOR'S REPORT AND FINANCIAL STATEMENTS





# Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59620  
406/449-3122



JAMES H. GILLET, C.P.A.  
ACTING LEGISLATIVE AUDITOR

JOHN W. NORTHEY  
STAFF LEGAL COUNSEL

The Legislative Audit Committee  
of the Montana State Legislature:

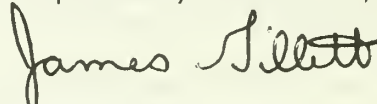
We have examined the Combined Balance Sheets of the various funds and account groups of the Montana Board of Public Education as of June 30, 1980 and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, of such funds for the two fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, and Activities and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of such funds of the Board of Public Education, as of June 30, 1980 and the results of its operations and changes in fund balance of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The items titled "Total (Memorandum Only)" on the Balance Sheets and the Combined Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, and the Schedule

of Grants are not necessary for a fair presentation of the financial statements but are presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relationship to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett". The signature is written in a cursive style with a large initial "J" and a stylized "G".

James Gillett, CPA  
Acting Legislative Auditor

December 4, 1980

BOARD OF PUBLIC EDUCATION  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1980

|  | GOVERNMENTAL FUND TYPES |                             |                         |                      |
|--|-------------------------|-----------------------------|-------------------------|----------------------|
|  |                         | Special<br>Revenue Fund     | Account Groups          | Totals               |
|  | General<br>Fund         | Federal and<br>Private Fund | General<br>Fixed Assets | (Memorandum<br>Only) |
| ASSETS   |                         |                             |                         |                      |
| Cash in Treasury   |                         | \$630                       |                         | \$ 630               |
| Expense Advances to Employees                                  | \$ 800                  |                             |                         | 800                  |
| General Fixed Assets -<br>Equipment                            |                         |                             | \$27,819                | 27,819               |
| Assets Available to Pay<br>Accrued Exenditures and<br>Payables | <u>6,708</u>            | <u>          </u>           | <u>          </u>       | <u>6,708</u>         |
| Total Assets   | <u>\$7,508</u>          | <u>\$630</u>                | <u>\$27,819</u>         | <u>\$35,957</u>      |
| LIABILITIES  |                         |                             |                         |                      |
| Accrued Expenditures   | <u>7,508</u>            | <u>387</u>                  | <u>          </u>       | <u>7,895</u>         |
| Total Liabilities  | <u>7,508</u>            | <u>387</u>                  | <u>-0-</u>              | <u>7,895</u>         |
| Fund Equity  |                         |                             |                         |                      |
| Investment in General<br>Fixed Assets                          |                         |                             | 27,819                  | 27,819               |
| Fund Balance   | <u>          </u>       | <u>243</u>                  | <u>          </u>       | <u>243</u>           |
| Total Fund Equity  | <u>-0-</u>              | <u>243</u>                  | <u>27,819</u>           | <u>28,062</u>        |
| TOTAL LIABILITIES AND<br>FUND BALANCE                          |                         |                             |                         |                      |
|  | <u>\$7,508</u>          | <u>\$630</u>                | <u>\$27,819</u>         | <u>\$35,957</u>      |

The Notes to the Financial Statements are an integral part of this statement.



BOARD OF PUBLIC EDUCATION  
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
ALL FUNDS  
FISCAL YEAR ENDED JUNE 30, 1980

|   | GOVERNMENTAL FUND TYPES |           |          |                                  |         |          | Total (Memorandum Only) |           |          |
|---|-------------------------|-----------|----------|----------------------------------|---------|----------|-------------------------|-----------|----------|
|   | General Fund            |           |          | Federal and Private Revenue Fund |         |          | Budget                  | Actual    | Variance |
|   | Budget                  | Actual    | Variance | Budget                           | Actual  | Variance |                         |           |          |
| REVENUES:   |                         |           |          |                                  |         |          |                         |           |          |
| Federal Assistance  |                         |           |          | \$7,750                          | \$7,750 | \$-0-    | \$ 7,750                | \$ 7,750  | \$-0-    |
| Total Revenues  | \$ -0-                  | \$ -0-    | \$-0-    | 7,750                            | 7,750   |          | 7,750                   | 7,750     | -0-      |
| EXPENDITURES:   |                         |           |          |                                  |         |          |                         |           |          |
| Administration  | 68,203                  | 64,992    | 3,211    |                                  |         |          | 68,203                  | 64,992    | 3,211    |
| Fire Services Training School   | 130,837                 | 130,837   | -0-      | 7,890                            | 7,646   | 244      | 138,727                 | 138,483   | 244      |
| Total Expenditures  | 199,040                 | 195,829   | 3,211    | 7,890                            | 7,646   | 244      | 206,930                 | 203,475   | 3,455    |
| EXCESS OF CURRENT REVENUE OVER<br>(UNDER) CURRENT EXPENDITURES                      | (199,040)               | (195,829) | 3,211    | (140)                            | 104     | 244      | (199,180)               | (195,725) | 3,455    |
| OTHER FINANCING SOURCES (USES):   |                         |           |          |                                  |         |          |                         |           |          |
| Support To (From) General Fund  | 199,040                 | 195,829   | (3,211)  |                                  |         |          | 199,040                 | 195,829   | (3,211)  |
| EXCESS OF REVENUES AND OTHER<br>SOURCES OVER (UNDER) EXPENDITURES<br>AND OTHER USES | -0-                     | -0-       | -0-      | (140)                            | 104     | 244      | (140)                   | 104       | 244      |
| FUND BALANCE, JULY 1, 1979  | -0-                     | -0-       | -0-      | 140                              | 140     | -0-      | 140                     | 140       | -0-      |
| FUND BALANCE, JUNE 30, 1980   | \$ -0-                  | \$ -0-    | \$-0-    | \$-0-                            | \$ 244  | \$244    | \$ -0-                  | \$ 244    | \$ 244   |

The Notes to the Financial Statements are an integral part of this statement.



BOARD OF PUBLIC EDUCATION  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
ALL FUNDS  
FISCAL YEAR ENDED JUNE 30, 1979

|   | GOVERNMENTAL FUND TYPES |           |          |                                  |         |           | Total (Memorandum Only) |           |           |
|---|-------------------------|-----------|----------|----------------------------------|---------|-----------|-------------------------|-----------|-----------|
|   | General Fund            |           |          | Federal and Private Revenue Fund |         |           |                         |           |           |
|   | Budget                  | Actual    | Variance | Budget                           | Actual  | Variance  | Budget                  | Actual    | Variance  |
| REVENUES:   |                         |           |          |                                  |         |           |                         |           |           |
| Federal Assistance  |                         |           |          | \$5,000                          | \$1,250 | \$(3,750) | \$ 5,000                | \$ 1,250  | \$(3,750) |
| Total Revenues  | \$ -0-                  | \$ -0-    | \$-0-    | 5,000                            | 1,250   | (3,750)   | 5,000                   | 1,250     | (3,750)   |
| EXPENDITURES:   |                         |           |          |                                  |         |           |                         |           |           |
| Administration  | 67,569                  | 65,674    | 1,895    |                                  |         |           | 67,569                  | 65,674    | 1,895     |
| Fire Services Training School   | 146,384                 | 146,359   | 25       | 1,250                            | 1,110   | 140       | 147,634                 | 147,469   | 165       |
| Total Expenditures  | 213,953                 | 212,033   | 1,920    | 1,250                            | 1,110   | 140       | 215,203                 | 213,143   | 2,060     |
| EXCESS OF CURRENT REVENUE OVER<br>(UNDER) CURRENT EXPENDITURES                      | (213,953)               | (212,033) | 1,920    | 3,750                            | 140     | (3,610)   | (210,203)               | (211,893) | (1,690)   |
| OTHER FINANCING SOURCES (USES):   |                         |           |          |                                  |         |           |                         |           |           |
| Prior Year Adjustments  | 318                     | 318       | -0-      |                                  |         |           | 318                     | 318       | -0-       |
| Support To (From) General Fund  | 213,635                 | 211,715   | (1,920)  |                                  |         |           | 213,635                 | 211,715   | 1,920     |
| Total Other Financing Sources   | 213,953                 | 212,033   | (1,920)  | -0-                              | -0-     | -0-       | 213,953                 | 212,033   | (1,920)   |
| EXCESS OF REVENUES AND OTHER<br>SOURCES OVER (UNDER) EXPENDITURES<br>AND OTHER USES | -0-                     | -0-       | -0-      | 3,750                            | 140     | (3,610)   | 3,750                   | 140       | (3,610)   |
| FUND BALANCE, JULY 1, 1978  | -0-                     | -0-       | -0-      | -0-                              | -0-     | -0-       | -0-                     | -0-       | -0-       |
| FUND BALANCE, JUNE 30, 1979   | \$ -0-                  | \$ -0-    | \$-0-    | \$3,750                          | \$ 140  | \$(3,610) | \$ 3,750                | \$ 140    | \$(3,610) |

The Notes to the Financial Statements are an integral part of this statement.



BOARD OF PUBLIC EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
TWO FISCAL YEARS ENDED JUNE 30, 1980

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS) and the Property Accountability and Management System (PAMS) with the following adjustments:

GENERAL FUND

| <u>Account Title</u>                                      | <u>Amount Increased</u> |
|---|-------------------------|
| Assets Available to Pay Accrued Expenditures and Payables | \$ 611                  |
| Accrued Expenditures                                      | \$ 611                  |

GENERAL FIXED ASSETS

| <u>Account Title</u>               | <u>Amount Increased</u> |
|------------------------------------|-------------------------|
| General Fixed Assets - Equipment   | \$3,219                 |
| Investment in General Fixed Assets | \$3,219                 |

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded when the related liability is incurred. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual when they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt.



### Inventories

There are no assets recorded for supplies inventory. Supplies are expensed when purchased.

### General Fixed Assets

General fixed assets are recorded as expenditures in the various funds at the time of purchase.

In March 1980, the board began accounting for fixed assets using PAMS. Fixed assets recorded on PAMS include those of a relatively permanent nature with a useful life of more than one year and a unit cost of \$200 or more. Assets purchased are recorded at acquisition cost. Depreciation is not recorded for general fixed assets.

### Vacation and Sick Leave

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are reported when paid. Permanent employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation into 90 days of a new calendar year. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The liability amount associated with unused accumulated vacation and sick leave at June 30, 1980 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

## 2. EMPLOYEE RETIREMENT SYSTEM

Employees are covered by the Public Employees' Retirement System (PERS). PERS is a contributory plan under which the board contributes 6.2 percent of employees' gross wages and the

employee contributes 6 percent of his gross wages. During fiscal years 1978-79 and 1979-80, the board incurred pension costs of \$14,903 and \$16,054, respectively.

The state's policy is to fund accrued pension costs. The last actuarial study of PERS was performed at June 30, 1980. At that time, the system was actuarially sound. The unfunded past service costs and actuarially computed value of vested benefits were not readily available for members of the plan employed by the board.

### 3. BUDGET INFORMATION

The board utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the legislature. Appropriations control the board's financial operations during each fiscal year. At the end of each year, the remaining appropriation balance reverts to the fund of original appropriation. The reverted appropriation may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the legislature but available from sources other than the general fund or federal revenue sharing moneys. The 1979 legislature restricted the use of budget amendments in the earmarked revenue fund. Earmarked revenue fund budget amendments may only be approved if an emergency justifies the expenditure.

BOARD OF PUBLIC EDUCATION  
SCHEDULE OF GRANT INCOME AND DISBURSEMENTS  
TWO FISCAL YEARS ENDED JUNE 30, 1980

| <u>GRANTOR</u>                                       | <u>Fiscal Year 1978-79</u> |                      | <u>Fiscal Year 1979-80</u> |                      |
|--|----------------------------|----------------------|----------------------------|----------------------|
|  | <u>Income</u>              | <u>Disbursements</u> | <u>Income</u>              | <u>Disbursements</u> |
| United States Fire<br>Administration<br>(USFA-79029) | \$1,250                    | \$1,119              | \$3,750                    | \$3,750              |
| Phoenix Fire Department                              |                            |                      | \$4,000                    | \$3,888              |

AGENCY REPLY





BOARD MEMBERS

EX OFFICIO MEMBERS:

Thomas L. Judge, Governor  
Georgia Rice, Superintendent of  
Public Instruction  
John A. Richardson, Commissioner  
of Higher Education

APPOINTED MEMBERS:

Allen D. Gunderson, Vice Chairman  
Billings  
George A. Johnson  
Great Falls  
Marjorie W. King, Chairman  
Winnipeg  
Neil J. Lynch  
Butte  
Harriett C. Meloy  
Helena  
Mrs. Jean Robocker  
Kalispell  
Thomas A. Thompson  
Browning

# Board of Public Education

April 20, 1981

33 South Last Chance Gulch  
Helena, Montana 59601  
(406) 449-2785

RICHARD L. (RICK) REESE  
MARILYN F. MILLER  
ASSISTANTS TO THE BOARD

RECEIVED

APR 24 1981

MONTANA LEGISLATIVE AUDITOR

Mr. James Gillett  
Acting Legislative Auditor  
State Capitol  
Helena, Montana 59620

Dear Mr. Gillette:

Following is the Board of Public Education's response to the recommendations of the Legislative Auditor's report on examination of financial statements for the period ending June 30, 1980.

Recommendation #1 = WE RECOMMEND THAT THE BOARD OF PUBLIC EDUCATION RECORD AN ADJUSTMENT FOR TRANSACTIONS AFFECTING CASH BALANCES AFTER FISCAL YEAR-END.

Concur. Will be implemented in fiscal year-end SBAS transactions.

Recommendation #2 = WE RECOMMEND THAT THE BOARD RECOVER, TO THE FULLEST EXTENT POSSIBLE, INDIRECT COSTS ASSOCIATED WITH THE ADMINISTRATION OF FEDERALLY ASSISTED PROGRAMS.

Concur. The Board has received a copy of the Legislative Auditor's recommendations to the Governor for improving the indirect cost reimbursement collection process and will comply with regulations of that office.

Please let us know when the Legislative Audit Committee will be considering the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rick Reese".  
Richard L. Reese  
Assistant to the Board

RLR:bg







